

CITY OF BURLINGTON
Skagit County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. City Funds Must Be Properly Accounted For To Ensure Compliance With The Laws Governing The Receipt And Expenditure Of Public Funds

Fire department personnel failed to account for city moneys by allowing the funds to be handled by the Burlington Volunteer Fire Department, Inc. (BVFD), which claims to be a private nonprofit organization registered to conduct fund raising in the state of Washington. All of the diverted money was receipted by city fire department employees on city time but deposited in BVFD's private bank accounts and not with the city treasurer. BVFD controlled these funds by processing all revenues and expenditures through its bank accounts rather than through the city's accounting system.

The distinction made between BVFD and the city fire department, for public appearances, was minimal. BVFD used a name very similar to the city's fire department, wore uniforms identifying their members as city firefighters, and used city resources while soliciting donations and performing fund-raiser functions. Many of the checks received by BVFD were made out to "Burlington Fire Department," not to BVFD. As a result, we were unable to determine if individuals making donations and fund-raising contributions fully understood the distinction between the organization and the city fire department. These individuals may have been misled into believing that their donations were supporting the city fire department rather than the private nonprofit organization, and that the money would be used solely for fire protection related activities by the city fire department rather than parties, beverages, golf league dues, pictures, gifts, flowers, pool equipment repairs, and trips by BVFD. Further, we have been provided with no documentation regarding the intent of each donor relating to each donation, nor does it appear that BVFD has maintained such records to support its claim to the funds. In light of the confusion created by this situation and the lack of documentation to the contrary, the money given to city fire department employees and officials, money receipted by city fire department employees and officials on city time, and checks made out to "Burlington Fire Department" represent city funds. Since these funds were processed through BVFD bank accounts rather than through the city's accounting system, the city did not comply with the laws governing the receipt and expenditure of public funds.

In addition, the nonprofit BVFD also received Emergency Medical Services (EMS) reimbursements from Skagit County for fire protection purposes. Skagit County believed the city was receiving this money when in fact city management was unaware of the payments. Individuals as well as other agencies were led to believe that their money was going to the city fire department to be used solely for fire protection and related purposes by the city rather than to a private nonprofit corporation which could use the money for the other purposes listed below. City funds provided, as noted above, to BVFD were not consistently used for fire protection purposes. Total money spent by BVFD for 1990, 1991, and 1992 was \$44,662.86. For every \$1 spent, 33 cents was used for activities other than fire protection purposes, as follows:

Parties for organizational members, including: crab feeds, Christmas parties, picnics and various dances	\$ 6,295.27
Beverages for organizational members, including: pop and alcohol	4,110.86
Miscellaneous costs for organizational members and city employees, including: golf league dues, pictures, various gifts, flowers, pool equipment repairs, and a trip for the Fire Chief	<u>4,131.68</u>
Total	<u>\$14,537.81</u>

RCW 35.24.140 states:

Every officer collecting or receiving any money belonging to or for the use of the city shall settle with the clerk and immediately pay it into the treasury on the order of the clerk to be credited to the fund to which it belongs.

RCW 42.20.070 states in part:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district, who:

(1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or . . .

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage, or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people

regarding any and all details of the financial administration of public affairs.

Fire department personnel and BVFD members did not follow applicable laws governing public funds. As a result of city funds not being deposited in city accounts and used for legitimate fire protection purposes, the city was deprived of the use of such funds.

We recommend the City of Burlington seek recovery of the misappropriated \$14,537.81, all public moneys still held by Burlington Volunteer Fire Department, Inc., and the related audit/investigation costs. We further recommend the Skagit County Prosecuting Attorney take whatever action is deemed appropriate and necessary. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260. We also recommend that the city:

- a. Authorize a special revenue fund to account for all revenue and expenditure transactions for donated fire department funds.
- b. Process all revenue and expenditure transactions of special revenue funds through the city's accounting system.
- c. Establish policies and procedures for all operations of the fire department.

2. The City Should Improve Internal Controls Over The Utility Billing System

During our review of the city's utility billing system, the following internal control weaknesses were noted:

- a. One person bills, posts, collects, deposits, and reconciles the bank statement.
- b. City management did not provide sufficient oversight of this individual's functions.

RCW 43.09.200 states in part:

The state auditor, through such division, shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting, Accounting and Reporting System (BARS) Manual for Category 2 Local Governments Volume 1, Part 3, Chapter 1, page 23 states in part:

Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.

To reduce the risk of error, waste, or wrongful acts or to reduce the risk of them going undetected, no one individual should control all key aspects of a transaction or event . . .

Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

This standard requires supervisors to continuously review and approve the assigned work of their staffs. It also requires that they provide their staffs with the necessary guidance and training to help ensure that errors, waste, and wrongful acts are minimized and that specific management directives are achieved.

The city contends that they did not have the appropriate segregation of duties as a result of the lack of staff and the lack of training on the utility software.

The city's failure to segregate incompatible duties or provide sufficient oversight of the functions increases the risk that errors or irregularities may occur and not be detected in a timely manner, if at all.

We recommend that the city take action to improve its internal controls over the utility billing system. Either the collection and accounting functions of the utility billing system should be segregated or city management should provide increased oversight to lessen the impact of the lack of segregation of duties. For the increased oversight to be effective, an employee independent of the utility billings system should reconcile the utility control account to the subsidiary ledgers and perform periodic audits of the utility records.